

P-407, 421/CP-86-526 ORDER REQUIRING REFILED COST STUDIES AND
INFORMATION REGARDING LOWER COST ALTERNATIVE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
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In the Matter of the Petition of
Certain Subscribers in the
Lindstrom Exchange for Extended
Area Service to the
Minneapolis/St. Paul
Metropolitan Calling Area

ISSUE DATE: July 31, 1991

DOCKET NO. P-407, 421/CP-86-526

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PROCEDURAL HISTORY

On September 5, 1986, customers within the Lindstrom exchange filed a petition with the Commission for the installation of extended area service (EAS) between the Lindstrom exchange and the Minneapolis/St. Paul metropolitan calling area (MCA). The petition was assigned docket number P-407, 421/CP-86-526.

On March 20, 1987, the Commission consolidated all the pending petitions for EAS to the MCA including Lindstrom's and established a three phase process for considering the petitions. In the Matter of the Petitions of Certain Subscribers in the Exchanges of Zimmerman, Prescott, Waconia, Belle Plaine, North Branch, Lindstrom, New Prague, Cambridge, Hudson and Houlton for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421, 405, 407, 430, 426, 520, 427/CI-87-76, ORDER VARYING RULE, CONSOLIDATING DOCKETS AND NOTICE AND ORDER FOR HEARING (March 20, 1987).

Between April 15, 1987 and June 20, 1989, the Commission held hearings and reached individual decisions for the 16 petitions. On June 20, 1989 the Commission issued its ORDER IDENTIFYING ROUTES MERITING FURTHER CONSIDERATION, REQUIRING FURTHER INFORMATION, AND INITIATING AN INVESTIGATION. The Commission examined the petitions on the basis of existing legal standards and found that none of the proposed routes to the entire metropolitan calling area, including Lindstrom's, merited further consideration.

On April 27, 1990, the Minnesota legislature enacted legislation regulating the installation of EAS in Minnesota. 1990 Minn. Laws Chapter 513.

On June 26, 1990, the Commission issued an Order reevaluating the 16 petitions in the consolidated EAS case in light of the new EAS legislation. With respect to Lindstrom, the Commission found that Lindstrom, a non-metropolitan exchange, met the first two criteria for non-metropolitan exchanges: it was adjacent to an

exchange that was part of the MCA and 50% or more of its subscribers made one or more calls per month to the MCA. To prepare to poll Lindstrom subscribers to determine whether it would meet the final statutory criterion (adequate subscriber support), the Order also directed the telephone company serving the Lindstrom exchange¹, plus the telephone companies serving the existing metro calling area, to submit cost studies and proposed rates for Lindstrom's EAS.

On August 20, 1990, the Commission issued its ORDER REQUIRING THE FILING OF TRAFFIC STUDIES AND GRANTING TIME EXTENSION. In that Order the parties were given until September 24, 1990, to file their cost studies and proposed rates regarding the proposed Lindstrom EAS.

Between September 24 and October 12, 1990, the telephone companies affected by the Lindstrom EAS proposal either filed or refiled their cost studies.

On December 17, 1990, the Commission issued its ORDER ALLOWING TIME EXTENSION granting the Minnesota Department of Public Service (the Department) an extension until January 9, 1991 to file its report and recommendations on the cost studies and proposed rates.

On February 12, 1991, the Commission issued its ORDER ALLOWING TIME EXTENSION granting the Department a further extension until February 26, 1991 to file its report and recommendations on the cost studies and proposed rates.

On or before March 14, 1991, Contel, United Telephone Company, and Central Telephone Company (renamed Vista Telephone Company of Minnesota, Inc. by Commission Order dated June 26, 1991) refiled their cost studies in response to Commission action in the Contel Earnings Complaint, Docket No. P-407/C-90-906.

On March 18, 1991, the Commission issued its ORDER GRANTING TIME EXTENSION granting the Department an extension until April 1, 1991 to file its report and recommendations on the cost studies and proposed rates.

On April 1, 1991, the Department filed its report and recommendation.

On April 19, 1991, Scott-Rice Telephone Company (Scott-Rice) refiled its cost study in response to Commission action in the Contel Earnings Complaint, Docket No. P-407/C-90-906.

¹ At the time of the June 26, 1990 Order, the company serving the Lindstrom exchange was named Contel of Minnesota, Inc. (Contel). By July 16, 1991 Order of the Commission, the name of the company changed to Contel of Minnesota d/b/a GTE Minnesota (GTE Minnesota). For post-name change activity, therefore, this Order refers to the company serving the Lindstrom exchange as GTE Minnesota.

On April 22, 1991, Contel and USWC filed comments in response to the Department's report.

On June 25, 1991, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. New Cost Studies

The Commission finds that the cost studies filed in this matter do not provide an adequate basis for determining EAS rates for the Lindstrom exchange. The Commission, therefore, will require the affected companies² to refile cost studies consistent with this Order.

1. Traffic Studies: the Basis for Cost Studies

Dependable cost studies require the best possible data regarding traffic volume. Unfortunately, the traffic data used by the companies is inadequate. For example, Contel used traffic from only one month (May 1990); USWC used data which it later acknowledged was flawed; and United used a one month traffic study to apportion its 25% of the EAS costs to each of its exchanges within the metro area. Moreover, each affected telephone company chose its own time period for conducting a traffic study and applied its own traffic collection techniques.

To correct these deficiencies, the Commission will require the companies to consult with each other and the Department to select a dependable and uniform traffic study methodology (including, for example, the same traffic study period) that they will all employ. In seeking dependable traffic projections, the Commission will not require the companies to use 12 months of actual data, as the Department recommends. Twelve months of data is difficult and time consuming to obtain and may not greatly improve the accuracy of current estimates. It is essential, however, that the companies use the same and the best methodology available.

² The affected telephone companies in this matter are: Contel of Minnesota d/b/a GTE Minnesota (GTE Minnesota, named Contel of Minnesota, Inc. prior to July 16, 1991), U S West Communications, Inc. (USWC), United Telephone Company (United), Vista Telephone Company of Minnesota, Inc. (Vista, named Central Telephone Company prior to June 21, 1991), Scott-Rice Telephone Company (Scott-Rice) and Eckles Telephone Company (Eckles). Note that Eckles Telephone Company has recently joined the list of affected telephone companies in this matter. On June 26, 1991, the Commission expanded the metropolitan calling area (MCA) to include New Prague, the exchange served by Eckles. Eckles is, therefore, an affected telephone company in any petition for EAS to the MCA subsequently considered by the Commission.

2. Treatment of Other Cost Study Issues

a. Gross Receipts Tax

Since the Commission has not adopted the Department's recommendation that the cost studies assume a zero percent gross receipts tax, the cost studies should assume the level of gross receipts tax that the companies experience under the current gross receipts tax statute. This treatment will be consistent with what the Commission has prescribed in previous EAS cases.

b. Recent Additions to the Metro EAS

The cost studies will be further improved by taking into account the fact that recently four additional exchanges have been added to the metropolitan calling area: Belle Plaine, Cologne, Waconia, and New Prague. Because the addition of these four exchanges is known at this time, there is no need to postpone factoring in this impact on rates until the Commission holds its true-up hearing regarding Belle Plaine, Cologne, Waconia, and New Prague. The companies can adjust their cost studies to reflect projected loss of access contribution and cost savings from the addition of Lindstrom to the metropolitan calling area including these four exchanges at this time and should do so.

B. Providing a Lower Cost Alternative

The telephone company serving an exchange in which subscribers are seeking EAS to the metropolitan calling area is required to make a lower cost alternative to basic flat-rate service available to its customers. Minn. Stat. § 237.161, subd. 1 (c) (1990). GTE Minnesota, the telephone company serving Lindstrom, the petitioning exchange in this docket, does not have a local measured service (LMS) rate on file at this time and it is unknown what service (local measured service or other lower cost alternative) GTE Minnesota proposes to offer to comply with the statute. Therefore, the Commission will require GTE Minnesota to indicate, at the same time it files its amended cost study, what rate structure it proposes as its lower cost alternative to the flat rate. If GTE Minnesota's lower cost alternative rate is not currently approved, it shall indicate in its filing the methodology it will follow to develop its proposed rate.

ORDER

1. Within 45 days of this Order, the affected telephone companies in this matter shall
 - a. consult with each other and the Minnesota Department of Public Service (the Department) to develop a reliable and uniform traffic study methodology,

- b. develop traffic projections using the traffic study methodology developed pursuant to Ordering Paragraph 1 (a), and
- c. refile cost studies with the Commission and the Department that
 - 1) are based on the new traffic projections developed pursuant to Ordering Paragraph 1 (a) and (b);
 - 2) take into account the inclusion in the metropolitan calling area of the Belle Plaine, Cologne, Waconia, and New Prague exchanges; and
 - 3) assume a gross receipts tax at the level required under the current gross receipts tax statute.

The affected telephone companies in this matter are as follows: Contel of Minnesota, Inc. d/b/a GTE Minnesota (formerly Contel of Minnesota, Inc.), U S West Communications, Inc., Vista Telephone Company of Minnesota, Inc. (formerly Central Telephone Company), United Telephone Company, Scott-Rice Telephone Company, and Eckles Telephone Company.

- 2. When it refiles its cost study pursuant to Ordering Paragraph 1 of this Order, Contel Telephone of Minnesota, Inc. d/b/a GTE Minnesota shall indicate what rate structure it proposes as its lower cost alternative to basic flat rate service. If its proposed lower cost alternative rate is not currently approved, the company shall indicate the methodology it will follow to develop its proposed rate.
- 3. Within 45 days after the filing of the affected companies' cost studies and proposed rates pursuant to Ordering Paragraph 1, the Department shall file its report and recommendations on the cost studies and proposed rates. The Department's report shall indicate whether the cost studies meet the minimum requirements of Minn. Stat. § 237.161 (1990).
- 4. Within 20 days after the Department's filing required by Ordering Paragraph 3, any interested party may file comments.
- 5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)